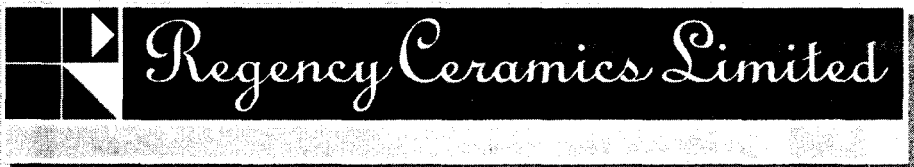




22nd Annual Report

2005-06

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An ISO 9001, 14001 & OHSAS 18001 Company

Board of Directors

| | | | |
|--|---------------------------|-----|--------------------------------|
| 01. | Dr. G. N. Naidu | ... | Chairman and Managing Director |
| 02. | Smt. Bindu G. Naidu | ... | Whole -Time Director |
| 03. | Smt. G.Radhika | ... | Whole -Time Director |
| 04. | Sri.Neelakantan Vedagiri | ... | Director |
| 05. | Sri. T. V. Chowdary | ... | Director |
| 06. | Sri. G.Sreenivasulu Naidu | ... | Director |
| 07. | Sri . P. J. V. Sharma | ... | Director |
| 08. | Sri. S. V. Jagannath | ... | Additional Director |
| (upto 21.03.06 as ICICI Bank Ltd. Nominee) | | | |

| | |
|---|----------------------------|
| President (Operations) | : Mr. K.C. Chandrashekar |
| President (International Operations) | : Dr. S.V. Ramprasad |
| Vice President (Finance) | : Mr. E. Bala Krishna Rao |
| Vice President (HR & OD) | : Mr. J. Ravikanth Reddy |
| Company Secretary | : Mr. Satish Kumar Subudhi |

Audit Committee:

Sri.Neelakantan Vedagiri
Sri.T.V.Chowdary
Sri. S.V.Jagannath
Sri. P. J. V. Sharma

Investors' Grievance

Committee:

Sri. T.V.Chowdary
Sri. Neelakantan Vedagiri
Dr. G.N.Naidu

Bankers:

State Bank of India
The South Indian Bank Limited
Corporation Bank
State Bank of Travancore
State Bank of Indore
State Bank of Bikaner & Jaipur

Auditors:

M/s. Brahmayya & Co
Chartered Accountants
Hyderabad

Registered Office:

N. N. House
Chirag Ali Lane
Hyderabad - 500001

Factory:

Yanam - 533464
(U.T. of Pondicherry)

Contents :

Page No.:

| | |
|---|----------------|
| Notice to the Shareholders | 1 - 5 |
| Directors' Report | 6 - 9 |
| Management Discussion and Analysis | 10 - 13 |
| Report on Corporate Governance | 13 - 19 |
| Certification by CEO/CFO | 20 |
| Auditors' Report | 21 - 23 |
| Balance Sheet | 24 |
| Profit and Loss Account | 25 |
| Schedules | 26 - 31 |
| Notes to Accounts | 32 - 38 |
| Abstracts of Balance Sheet | 39 |
| Cash Flow Statement | 40 |



Notice to the Shareholders

Notice is hereby given that the 22nd Annual General Meeting of the Company will be held on Wednesday, the September 27, 2006 at 10.00 a.m. at Indira Priyadarshini Auditorium, Public Gardens, Nampally, Hyderabad – 500 001, to transact the following business.

Ordinary Business:

1. To consider and adopt the Audited Balance Sheet as on March 31, 2006 and Profit and Loss account for the year ended on that date along with the reports of the Directors and Auditors thereon.
2. To appoint a Director in place of Smt. Bindu G. Naidu, who retires by rotation and being eligible, offers herself for re-appointment.
3. To appoint a Director in place of Sri. G. Sreenivasulu Naidu who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint M/s. Brahmayya & Co., Chartered Accountants, Hyderabad as Statutory Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and authorize the Board of Directors to fix their remuneration.

Special Business:

5. To consider and if thought fit, to pass with or without modification(s), the following resolution as an Ordinary Resolution.

“RESOLVED THAT Sri. S.V. Jagannath, who was inducted as an additional Director on the Board of the Company pursuant to provisions of Section 260 of the Companies Act, 1956 read with Article 36(e) of the Articles of Association of the Company, by the Board of Directors in its meeting held on March 21, 2006 and holds office until the conclusion of this Annual General Meeting, and in respect of whom the Company, pursuant to Section 257 of the Companies Act, 1956, has received a notice in writing proposing his candidature to the office of Director, be and is hereby appointed as a Director of the Company, liable to retire by rotation.”

6. To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to Section 198, 269, 309 and other applicable provisions of the Companies Act, 1956 read with Schedule-XIII of the said Act, as may be amended from time to time and subject to approval of the Financial Institutions/Banks in terms of the Loan Agreements, Smt. G. Radhika be and is hereby re-appointed as a Whole Time Director of the Company for a period of five years with effect from January 28, 2007 on the existing terms and conditions, which are reproduced below:

1. Salary: Rs.50, 000/- per month.
2. House Rent Allowance not exceeding Rs.10, 000/- p.m.
3. Medical expenses re-imbursement not exceeding Rs.5,000/- p.m.
4. Re-imbursement of books and periodicals not exceeding Rs.2,000/- p.m.
5. Provision of car with driver for use on Company's business.



Regency Ceramics Limited

6. Reimbursement of telephone expenses at residence.
7. Company's contribution towards PF as per Company's rules.
8. Payment of Gratuity as per Company's rules.
9. Encashment of leaves as per Company's rules.
10. Mediclaim insurance and other personal insurance applicable to the employees of the Company as per Company's rules.
11. Other perks as per Company's rules.
12. No sitting fees shall be payable for attending the Board/Committee Meetings.

RESOLVED FURTHER THAT in the event of inadequacy or absence of profits in any financial year, the Company shall pay Smt.G.Radhika, in respect of such financial year, remuneration by way of salary, allowances, perquisites and other benefits as the Board of Directors may deem fit, subject to and within the limits prescribed in Section II of Part II of Schedule XIII of the Companies Act, 1956, as existing or as modified or re-enacted from time to time."

By order of the Board
for **Regency Ceramics Limited**

Place: Hyderabad
Date: July 27, 2006

Satish Kumar Subudhi
Company Secretary

Notes:

1. ***A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll, instead of himself. Proxy need not be a member of the Company; Proxy form duly completed should be deposited at the Company's registered office at least 48 hours before commencement of the meeting.***
2. Corporate members intending to send their Authorised Representatives are requested to send a duly certified copy of the Board Resolution authorising their representatives to attend and vote at the Annual General Meeting.
3. Members/proxies are requested to bring their copies of Annual Report and the attendance slip duly filled in. Copies of Annual Reports will not be provided at the meeting. Members holding shares in D-mat form shall write their Client ID and DP ID No. and those holding in Physical form to write their Folio No. in the attendance slip for attending the meeting.
4. An Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 relating to items of Special Business to be transacted at the meeting is annexed hereto.
5. The Register of Members and Share Transfer books of the Company will remain closed from September 01, 2006 to September 08, 2006 (both days inclusive).



22nd Annual Report 2005-06

6. Members seeking any information with regard to accounts for the financial year ended March 31, 2006, may send their queries to the Company at least 10 days before the meeting, in order to enable the Management to keep the information ready at the Meeting.
7. Members are requested to notify immediately the details of their bank accounts and any change in their address to the Company's registered office at 5-8-356, N.N.House, Chirag Ali Lane, Hyderabad – 500 001 or to Company's R & T Agent, the address given elsewhere in this Annual Report.
8. The Company has already transferred the unclaimed dividend declared for the financial year 1991-92 to the general revenue account of the Central Government as required by the Companies Un-paid Dividend (Transfer to the General Revenue account of the Central Government) Rules, 1978. Shareholders who have not claimed or collected the dividend for the aforesaid financial year may claim their dividend by writing to the Registrar of Companies, Andhra Pradesh, Kendriya Sadan, Koti, Hyderabad-500 001.
9. Pursuant to the provisions of Section 205A of the Companies Act, 1956 and the amendment thereto, the dividend for the financial year ended March 31, 1996 and there-after, which remain unpaid or unclaimed for a period of 7 years will be transferred to the 'Investors Education and Protection Fund' of the Central Government. Shareholders who have not encashed the dividend warrant(s) so far, with regard to the interim dividend declared for the financial year 1999-00, final dividend for the financial years 2000-01, 2001-02, 2002-03 and 2003-04 are requested to write to the Company Secretary, Regency Ceramics Limited, N.N.House, Chirag Ali Lane, Abids, Hyderabad-500 001 or to the Company's R & T Agent, the address given elsewhere in this Annual Report. Please note that once the unclaimed dividend is transferred to the aforesaid 'Investors Education and Protection Fund' of the Central Government, no claim shall lie in respect thereof.
10. Your Company's securities are listed with The Stock Exchange, Mumbai (BSE) and The National Stock Exchange Limited, Mumbai (NSE). The Company is regular in paying the annual listing fee to the said stock exchanges.
11. As per Section 109A of the Companies Act, 1956, shareholders desirous of making/ changing nomination in respect of shares held by them in physical form can send their request to the Company's R & T Agent, the address given elsewhere in this Annual Report, in the requisite Form No. : 2B.

By order of the Board
for **Regency Ceramics Limited**

Place: Hyderabad
Date: July 27, 2006

Satish Kumar Subudhi
Company Secretary



Annexure to notice:

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item no.5:

In terms of the then loan Agreement, ICICI Bank Ltd. had nominated Sri.S.V.Jagannath as Nominee Director on the Board of the Company with effect from April 06, 2002. The ICICI Bank Ltd. has withdrawn the nomination and accordingly Sri. Jagannath ceased to be a Nominee Director with effect from March 21, 2006. His wide experience in various fields has been helping the Company in providing valuable inputs for deliberations of the Board and in improving the overall growth of the Company. The Board of Directors, has therefore considered and passed necessary resolution under the provisions of Section 260 of the Companies Act, 1956, enabling him to continue as a Director on the Board of the Company, in his individual capacity.

Sri.S.V.Jagannath, aged about 38 years, is a Graduate in Engineering (Mechanical) and also holds a Post Graduate Diploma in Management. He had worked for ICICI Bank in various managerial capacities for more than a decade till July, 2005 and thereafter assumed charge as CFO of a Biotech Company namely M/s.Naturol Bio Energy Limited.

In terms of Section 260 of the Companies Act, 1956 Sri. Jagannath holds office of Director until the conclusion of this Annual General Meeting. The Company has received a notice pursuant to the provisions of Section 257 of the Companies Act, 1956, from a shareholder along with the requisite deposit, signifying his intention to propose his candidature to the office of Director.

Your Directors commend the resolution for your approval.

Except Sri.S.V.Jagannath, none of the Directors is deemed to be interested in the above said resolution.

Item no.6:

Smt. G. Radhika was appointed as a Whole-Time Director of the Company for a period of 3 years with effect from January 28, 2004 in terms of the resolution approved by the shareholders in the Annual General Meeting held on September 30, 2004. Since, the term of appointment shall expire on January 27, 2007, the Board of Directors, at its meeting held on July 27, 2006 approved the re-appointment of Smt. G.Radhika as a Whole-Time Director of the Company for a further period of 5 years with effect from January 28, 2007, which is subject to approval of Shareholders and lending Banks /Financial Institutions.

Smt. G. Radhika aged about 38 years is a B.Com graduate from Osmania University and has the distinction of bagging the gold medal in MBA (Finance & Marketing) from T.A.Pai Management Institute, Manipal. She worked as Marketing Analyst in your Company in the year 1992 for a period of one year and has been associated with the Company since 1997 as a Director. Her expertise in the field of brand building, product promotion, publicity/



22nd Annual Report 2005-06

advertisement and key insight has proved instrumental to the business of the Company. She holds the directorship in three other Companies namely M/s. Regency Merchant Banking Limited, M/s. Regency Rare Minerals and Chemicals Ltd and M/s. iSpace software Technologies Limited.

The Board commends the resolution for your approval.

None of the Directors except Smt. G.Radhika, Dr.G.N.Naidu and Smt. Bindu G.Naidu deemed to be concerned or interested in the said resolutions.

By order of the Board
for **Regency Ceramics Limited**

Place: Hyderabad
Date: July 27, 2006

Satish Kumar Subudhi
Company Secretary

Additional information on the Directors seeking re-election / re-appointment at the ensuing Annual General Meeting:

Smt. Bindu G Naidu, aged about 32 years is a B.Com Graduate from Osmania University, A.P and acquired a Masters Degree in Business Administration with specialisation in Finance from P. S. G. Institute of Management, Bharatiar University, Coimbatore, Tamilnadu. She started her association with the Company as an employee during the year 2000-01. Subsequently, in recognition of her commitment and valuable contributions, she has been appointed as Director / Whole-time Director of the Company, with effect from January 27, 2001. She has been participating in various activities, more particularly the marketing activities of the Company. Smt. Bindu G. Naidu, also holds directorship in M/s.Regency Merchant Banking Ltd. and M/s. Regma Ceramics Ltd.

Sri.G. Sreenivasulu Naidu, aged about 64 years is a Law graduate and a practising Advocate in profession since 1969. He is associated as a Director of your Company since 1993-94. His diversified knowledge and experience in both criminal and civil cases, corporate affairs and other fields has helped the Company in its difficult times. He was earlier a member of the panel of advocates for United India Insurance Co. Ltd., Kadapa, (A.P), New India Assurance Co. Ltd., Kadapa and standing counsel for A.P Mineral Development Corporation, Kadapa and APSRTC, Kadapa.

By order of the Board
for **Regency Ceramics Limited**

Place: Hyderabad
Date: July 27, 2006

Satish Kumar Subudhi
Company Secretary



Directors' Report to the Shareholders:

Your Directors have pleasure in presenting the 22nd Annual Report along with the Audited Accounts of the Company for the year ended March 31, 2006.

Financial Highlights:

(Rs. in lakhs)

| Sl.No. | Particulars | 2005-06 | 2004-05 |
|--------|---|---------|---------|
| 01. | Turnover | 15346 | 15738 |
| 02. | Gross profit before interest and Depreciation | 2368 | 2393 |
| 03. | Finance charges | 1264 | 1333 |
| 04. | Depreciation | 1033 | 1007 |
| 05. | Net Profit before tax | 71 | 53 |
| 06. | Income tax | 66 | 171 |
| 07. | Net profit (Loss) after tax | 5 | (118) |
| 08. | Balance carried to balance sheet | 3697 | 3692 |

Dividend:

On account of insufficient disposable surplus and considering the liquidity constraints, your Directors do not recommend any dividend for the year under review.

Review of Operations:

The year under review has witnessed a testing time for your Company. The Company continues to succumb under the effect of supply constraints and price increase of natural gas. Various alternative strategies adopted towards addressing the difficulties on natural gas are yet to yield the desired results. Despite best possible efforts, your Company's performance is still below its true potential and capacity.

The Company's operations have resulted in production of 100.02 lakh sq.mts during the year under review as against 103.46 lakh sq.mts during the previous year. The sales in physical and financial terms are 96.09 lakh sq.mts. (previous year 100.51 lakh sq.mts) and Rs.15346 lakhs (previous year Rs.15738 lakhs) respectively. The adverse factors, such as lower price realisations, increase in input costs, increase in cost of natural gas and power, increase in inventory carrying cost, low volumes of production and sales, pressure on margins etc., have caused the decline in the performance.

Exports:

Despite challenging economic environment prevailing in the international market, your Company has been consistent in achieving year on year newer heights for the last five consecutive years. However, with the un-remunerative export prices and to hold the domestic market share, it was thought fit to scale down its export activities. As a result, the year under review recorded an export turnover of Rs.2660.79 lakhs as compared to Rs. 3857.99 lakhs during the previous year. Your Company continues to explore various alternative strategies to re-achieve the sustainable growth in future.

Future Outlook :

Your Company had drawn plans, in the earlier years for rapid growth by way of modernisation and expansion. Due to the un-expected supply constraints of natural gas, increase in gas prices, increase in market competition, pressure on margins and other ancillary factors, the expected growth did not take place. However, your Company shall continuously endeavour to focus on increased operational efficiency and monitor all areas of operations more particularly in expenditure control which in turn will help the future growth of the Company.



Customs, Excise & Income Tax Matters:

Your Company preferred an appeal before CESTAT against the order passed by the Commissioner (Appeals) with regard to the dispute for the payment of interest on custom duty amounting to Rs.163.11 lakhs on capital equipment imported during 1985-86 and the appeal is disposed off in favor of the Company. The matter was remanded to the original authority to recalculate the interest in accordance with the direction of the CESTAT, by applying the principles of natural justice. The Company is expecting the refund of the excess amount paid shortly.

Your Company paid the entire tax demanded by the Income Tax Authorities for the financial years 1998-99, 1999-00, 2000-01, 2001-02 and 2002-03. At the same time, the Company is contesting the order of the Tax Authorities before the Tribunal based on favorable advice of the expert consultant on the issue and the same is pending for disposal.

Achievements /Accomplishments :

The Company continues to enjoy 'Export House', status in recognition of its export performance by Government of India. CAPEXIL has bestowed on your Company the 'Outstanding Export Achievement – Special Award – 2005-06' after honoring with 'Special Export Award' for three consecutive years. M/s. Container Corporation of India Ltd., Hyderabad has also honored the Company with the 'Best Exporter' award for the third successive year.

Environment and Social concerns :

Your Company continues to enjoy the ISO 9001–2000 certification for quality, the ISO 14001 certification for its Environmental Management Systems and the OHSAS 18001 certification from 'Occupational Health Safety Managing System (OHSMS) for the Health and Safety measures observed in the Company. The integrated QESH (Quality, Environment, Safety and Health) policy implemented in all areas of operations is in place.

Directors :

Smt.Bindu G. Naidu and Sri.G.Sreenivasulu Naidu retire by rotation and are eligible for re-appointment in this AGM.

Smt. G.Radhika was appointed as a Whole-time Director for a period of three years with effect from January 28, 2004. The Board of Directors in its meeting held on July 27, 2006 recommended the re-appointment of Smt.Radhika as a Whole-time Director for a further period of five years subject to approval of Shareholders and lending Institutions.

Consequent upon the withdrawal of nomination by ICICI Bank Ltd., Sri.S.V.Jagannath ceased to be a Nominee Director on the Board of your Company with effect from March 21, 2006. The Board took note of the same and considering his contributions to the Board during his tenure as Nominee Director, co-opted him as an additional Director of the Company in his individual capacity, pursuant to Article 36(e) of the Articles of Association of the Company read with Section 260 of the Companies Act, 1956. He is liable to vacate the office at the ensuing Annual General Meeting and is eligible for re-appointment.

Auditors :

M/s. Brahmayya & Co., Chartered Accountants, Hyderabad, the Statutory Auditors of the Company retire at the conclusion of this Annual General Meeting and are eligible for re-appointment.

Auditors' Report:

The Auditors' comments in the Report are self-explanatory.



Fixed Deposits:

During the year the Company have not accepted any fixed deposits

Corporate Governance:

The Corporate Governance Report along with the Management Discussion & Analysis Report is annexed as part of this Annual Report.

Auditors report on Corporate Governance is also attached to this report.

Directors' Responsibility Statement:

Your Directors confirm that

- i) in the preparation of annual accounts, applicable accounting standards have been followed;
- ii) the accounting policies adopted are consistent and judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the financial year;
- iii) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

Information pursuant to Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 are given in Annexure-I forming part of the report.

Particulars of Employees:

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given at Annexure-II to this report.

Industrial Relations:

The industrial relations continue to be cordial. Development of Human Resources at all levels is given utmost importance and continuous training is imparted to improve the productivity, quality, cost control, safety & environment protection.

Acknowledgements:

The Board acknowledges the support and co-operation extended by the Financial Institutions/ Banks viz: State Bank of India, The South Indian Bank Ltd, State Bank of Travancore, State Bank of Indore, State Bank of Bikaner and Jaipur, Corporation Bank, UTI Bank Ltd, IFCI Ltd, PIPDIC, Central & State Government Departments, GAIL, ONGC, Dealers, Customers, Suppliers, Employees at all levels and Shareholders of the Company and look forward for their continued support.

For and on behalf of the Board

Place : Hyderabad
Date : July 27, 2006

Dr.G.N.Naidu
Chairman and Managing Director